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ABSTRACT

This paper describes the current status of state poverty-based education funding programs, discussing how to implement or improve them. Researchers surveyed education finance officials in the 49 states with multiple school districts. Results indicate that 38 states currently distribute some education funds on the basis of poverty. A total of 75 programs in those states distributed $8.7 billion to schools in 2001-2002. Over 80 percent of the programs were first implemented in their current form since 1990, indicating active interest among state policymakers to provide adequate funding for school districts serving poor children. State poverty-based education funding programs vary significantly by size, focus, and funding method. Rather than developing new processes for gathering student poverty data, every state piggybacks on means-tested federal programs to estimate the number of low-income children in each school or district. Many states target poverty-based education funds to districts with larger number of poor students. Some attach strings to poverty-based funding (e.g., restricting grants for specific purposes). The overall level of commitment to poverty-based funding varies significantly among the states. Suggestions for state policymakers include providing funding that adequately reflects the cost of educating low-income children and targeting funding to high-poverty districts. (SM)

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STATE POVERTY-BASED EDUCATION FUNDING: A SURVEY OF CURRENT PROGRAMS AND OPTIONS FOR IMPROVEMENT

By Kevin Carey

Executive Summary

State and federal policymakers are increasingly focused on creating high standards of academic achievement for all students. Schools that serve large numbers of low-income students face particular challenges in meeting these standards. As a result, a number of states have implemented education funding policies that direct additional resources to local school districts on the basis of poverty. This paper presents the results of a survey of state poverty-based education funding programs, and explores policy options for policymakers working to implement or expand programs designed to improve education funding for low-income children.

The survey finds that 38 states currently distribute some education funds on the basis of poverty. A total of 75 separate programs in those states distributed $8.7 billion to schools in the 2001 – 2002 school year. Eighty-three percent of the programs were first implemented in their current form in the period since 1990, indicating active interest among state policymakers in working to provide adequate funding for school districts that serve poor children.

State poverty-based education funding programs vary significantly in terms of size, focus, and method of funding. Thirteen states provide additional funding by adjusting the parameters of their basic state aid formulas, which are the large distributions of state funds that form the backbone of public support for education in almost every state. Eighteen states have established separate "categorical" grants to assist poor students, providing supplemental distributions that augment basic state aid. Seven states utilize both approaches.

Rather than develop new processes for gathering student poverty data, every state piggybacks on means-tested federal programs to estimate the number of low-income children in each school or school district. The most commonly-used measure is eligibility for the federally-funded free and reduced-price lunch program. Twenty states base some or all of their poverty-based education funding distributions on the number of students eligible for free or reduced-price meals, while 10 states use the number of students eligible for free meals only. Six states rely on poverty data calculated by the U.S. Bureau of Census, three states use the number of children in households receiving TANF benefits, and one state relies on data from the food stamp program. Using data from federal programs reduces administrative costs, but each of the measures has limitations that can lead to an undercount of poor children.

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Because many researchers and educators believe that high-poverty schools face particular obstacles to academic achievement, a number of states have chosen to target poverty-based education funds to school districts with larger numbers of poor children. Twenty states restrict eligibility for some or all poverty-based funding programs to school districts with poverty rates above a threshold level. Fifteen states vary the amount funding distributed per low-income student, providing larger per-student grants to school districts with higher poverty rates.

Some states attach strings to poverty-based funding. Thirty-seven of the 53 separate categorical grants are restricted for specific purposes, either in terms of the way the funds may be used or in terms of the students who are to be served. Ten states provide poverty-based funding specifically for preschool or kindergarten programs; seven states target funds to class-size reduction, and four states provide resources specifically for reading programs in the early grades. Other states restrict services to students in the early grades, students who are poor, or students who are falling behind academically.

The overall level of commitment to poverty-based funding varies significantly among the states. Poverty-based funding per low-income student ranges from $111 in Arkansas to $5,199 in Massachusetts. Among the states that provide poverty-based funding, the amount of additional poverty-based education funding provided per low-income student ranges from 1.9 percent to 58.7 percent of the average per-student funding level for all students, with an average of 17.2 percent.

While 38 states provide some level of poverty-based funding, only 23 provide more than $1,000 per low-income student. Only 11 states provide additional funding per low-income student that exceeds 25 percent of average per-student funding levels, despite research indicating that the actual cost of educating low-income students is at least 100 percent greater than non-poor students.

There is significant potential for improving poverty-based education funding programs. State policymakers who wish to implement new poverty-based education funding programs or improve existing distributions have a number of available options:

1) Provide Funding That Adequately Reflects the Cost of Educating Low-Income Children

The average level of additional poverty-based education funding provided per low-income student is equal to 17.2 percent of average funding for all students. Recent studies suggest, however, that the actual additional cost of educating low-income children is between two and two-and-a-half times the cost of educating non-poor students. States can address this funding gap in a variety of ways. The percentage adjustments applied to per-student funding levels in basic state aid formulas can be increased. States can also redefine the "foundation" per-student funding levels to which those percentage adjustments are applied to reflect accurately the average per-student spending level in the state, and they can adopt more expansive definitions of poverty to increase the number of low-income children eligible for additional funding.

2) Target Funding to High-Poverty School Districts

With limited resources available for poverty-based funding, states can maximize the effectiveness of additional resources by targeting funding to higher-poverty school districts. States can restrict eligibility for funding to districts with poverty rates above a threshold level, and increase the amount of funding provided per low-income student to school districts that have large numbers of low-income children. These measures will concentrate resources in the high-poverty areas most in need.

3) Increase the Accuracy of Poverty-Based Distributions by Using Multiple Data Sources

States can help overcome the data limitations inherent in relying on a single measure of poverty by incorporating information from multiple sources. For example, states that use data from the federal free and reduced-price lunch program to determine poverty-based education funding distributions can incorporate poverty data gathered by the Census Bureau into their funding formulas.

4) Address Other Education Funding Policies that Reduce the Effectiveness of Poverty-Based Education Funding

Poverty-based education funding programs exist as one part of larger, more complex state education finance systems. If aspects of the larger system are detrimental to high-poverty school districts, the benefits of poverty-based distributions can be reduced or negated. For example, some states continue to rely heavily on local property taxes to fund education, resulting in inequitable funding levels for low-wealth, high-poverty school districts. Some states have adopted "hold harmless" provisions that maintain funding levels for school districts whose poverty levels are *declining*, reducing available resources for districts whose poverty levels are *increasing*. New York state appears to have determined funding outcomes based on political considerations *prior* to the actual development of funding policies and gathering of school data, negating the effects of poverty-based funding policies for the state's largest school district altogether. Policymakers developing poverty-based programs should be aware of these external pitfalls and seek to remedy them if possible.

By taking these considerations into account, state policymakers can make their poverty-based funding programs more robust, focused, accurate, and effective, helping to ensure that schools have adequate resources to meet the needs of low-income children.

Introduction

State education policymakers are increasingly focused on establishing rigorous academic standards of achievement and creating accountability for results among schools and students. Student scores on state-mandated standardized tests are used to assess school performance, while the federal government recently increased requirements for ongoing academic improvement in the "No Child Left Behind Act" enacted in 2002. States are developing systems to track the ongoing progress of every pupil, making promotion and graduation contingent on academic

progress, and assessing the performance of administrators and teachers based on student achievement.

This new accountability creates particular challenges for school districts that serve large numbers of low-income children. The link between poverty and lack of academic achievement is significant, persistent, and well-known. Without the resources to serve children who are at-risk of academic failure, high-poverty school districts face a strong likelihood of failing to meet strict academic standards. The federal government recognized this need by linking new standards to increased funding for the "Title 1" program that provides additional funding to states and school districts based on local poverty rates. A growing number of states have adopted similar policies, directing education funding to school districts on the basis of poverty.

This paper describes the current status of state poverty-based education funding programs and provides options for how those programs can be implemented or improved. A survey of education finance officials in the 49 states with multiple school districts found that state poverty-based education funding programs vary substantially.[1] State policies differ in terms of the level of funding provided, definition of poverty, formulas used to distribute funds, degree to which funds are targeted to high-poverty school districts, restrictions on the use of funds, and integration of poverty data with other measures of at-risk children. The first section of the paper describes the results of the survey and the various policies that states have adopted, while the second section provides policy options for states seeking to implement or improve poverty-based education funding programs.

Current State Poverty-Based Education Funding Programs

Poverty-Based Education Funding: How Many States, How Much Money, How Long?

A survey conducted by the Center on Budget and Policy Priorities of state education finance officials in the 49 states with multiple school districts found that in the 2001 – 2002 school year, thirty-eight states provided $8.7 billion in education funding to local school districts using formulas that incorporate student poverty levels. Those states used 75 different funding programs to distribute funds (Table 1A, Column 2).

The number of poverty-based education funding programs has increased significantly in recent years. Twenty-four programs were first implemented in their present form in the period from 1990 through 1995, and another 38 were initiated after 1995 (Table 1A, Column 4).[2] While some programs replaced previous poverty-based distributions, many represent new efforts to develop or expand education finance policies that target educational resources to school districts that educate low-income students. There is clearly a growing consensus among state education policymakers that school funding formulas should reflect the additional costs of educating low-income children.

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[1] Hawaii and the District of Columbia operate a single, state-wide school district.

[2] Some programs were modified to include a poverty component after their original inception. For those programs, the date refers to the first year the poverty component was included.

TABLE 1A - Characteristics of State Poverty-Based Education Funding Programs

1	2	3	4	5	6
State	**Program Name**	**2001 - 2002 Funding**	**First Year**	**Funding Mechanism**	**Poverty Measure**
Alabama	At-Risk Funding	$29,028,405	1995 - 1996	Separate Grant	Free & Reduced Lunch
Arizona	Early Childhood State Block Grant	$19,498,200		Separate Grant	Free Lunch
Arkansas	Poverty Index Funding	$10,000,000	1998 - 1999	Separate Grant	Free & Reduced Lunch
California	Economic Impact Aid	$465,600,000	1979 - 1980	Separate Grant	TANF
Colorado	None	$129,679,000	1994	Basic State Aid	Free Lunch
Connecticut	Regular Priority School District Grants	$20,726,000	Mid-1980s	Separate Grant	TANF
Connecticut	Other Priority School District Grants	$19,709,000	1997 - 1998	Separate Grant	TANF
Connecticut	Early Reading	$20,152,000	1999 - 2000	Separate Grant	TANF
Connecticut	School Readiness	$38,519,838	1998 - 1999	Separate Grant	TANF
Connecticut	Education Cost Sharing	$130,200,000	1989 - 1990	Basic State Aid	TANF
Georgia	Reading Programs	$34,760,185	1998 - 1999	Separate Grant	Free & Reduced Lunch
Illinois	Supplemental Low-Income Grant	$375,000,000	1973	Separate Grant	Census / Title 1
Illinois	Reading Improvement Block Grant	$83,000,000	1985 - 1986	Separate Grant	Census / Title 1
Indiana	Tuition Support	$12,943,981	1998	Basic State Aid	Census / Title 1
Indiana	At-Risk Grant	$53,655,572	1992	Separate Grant	Census / Title 1
Indiana	Primetime	$115,579,853	2000	Separate Grant	Census / F&R Lunch
Iowa	At-Risk Supplement	$9,125,000	2000 - 2001	Basic State Aid	Free & Reduced Lunch
Kansas	Pre-School At-Risk Funding	$12,400,000	1992 - 1993	Basic State Aid	Free Lunch
Kansas	Regular At-Risk Funding	$44,071,947	1992 - 1993	Basic State Aid	Free Lunch
Kentucky	Family Resource & Youth Service Centers	$49,589,760	1991 - 1992	Separate Grant	Free Lunch
Kentucky	Extended School Services	$36,000,000	1990	Separate Grant	Free Lunch
Kentucky	SEEK Program	$115,000,000	1990	Basic State Aid	Free & Reduced Lunch
Louisiana	At-Risk Factor	$228,120,528	1992 - 1993	Basic State Aid	Free & Reduced Lunch
Maryland	Targeted Poverty Grants I	$8,000,000	1994	Separate Grant	Free & Reduced Lunch
Maryland	Targeted Poverty Grants II	$18,200,000	1998	Separate Grant	Census / Title 1
Maryland	Teacher Development Grants	$5,600,000	1998	Separate Grant	Free & Reduced Lunch
Maryland	State Compensatory Education	$117,126,655	1980	Separate Grant	Free & Reduced Lunch
Maryland	Targeted Improvement Grants	$21,991,425	1998	Separate Grant	Free & Reduced Lunch
Massachusetts	Chapter 70	$560,607,244	1993	Basic State Aid	Free & Reduced Lunch
Massachusetts	Class-size Reduction	$18,000,000	2000 - 2001	Separate Grant	Free & Reduced Lunch
Michigan	School Readiness	$85,500,000	1985 - 1986	Separate Grant	Free Lunch
Michigan	At-Risk Pupils Program	$308,454,399	1994 - 1995	Basic State Aid	Free Lunch
Minnesota	Compensatory Revenue	$218,072,700	1970	Basic State Aid	Free & Reduced Lunch
Minnesota	First Grade Preparedness	$7,150,000	1996 - 1997	Separate Grant	Free & Reduced Lunch
Mississippi	At-Risk	$30,361,993	1998	Basic State Aid	Free Lunch

Notes:

The **First Year** refers to the first year the program was implemented in its present form, or the first year in which a poverty component was included.

The **Funding Mechanism** indicates the type of formula used to distribute funds

The **Poverty Measure** indicates the federal program from which poverty data is extracted to drive poverty-based education funding distributions.

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TABLE 1A - Characteristics of State Poverty-Based Education Funding Program

1	2	3	4	5	6
State	Program Name	2001 - 2002 Funding	First Year	Funding Mechanism	Poverty Measure
Missouri	None	$346,157,945	1993 - 1994	Basic State Aid	Free & Reduced Lunch
Nebraska	Poverty Factor	$36,500,000	1998 - 1999	Basic State Aid	Free Lunch
New Hampshire	Adequacy Aid	$50,000,000	1998 - 1999	Basic State Aid	Free & Reduced Lunch
New Jersey	Instructional Supplemental Aid	$14,708,003	1997 - 1998	Separate Grant	Free Lunch
New Jersey	Demonstrably Effective Program Aid	$199,048,148	1997 - 1998	Separate Grant	Free Lunch
New Jersey	Early Childhood Program Aid	$329,624,997	1997 - 1998	Separate Grant	Free Lunch
New Mexico	At-Risk Funding	$68,561,154	1997	Basic State Aid	Census / Title 1
New York	Class-size Reduction	$140,000,000	1999 - 2000	Separate Grant	Free & Reduced Lunch
New York	ERSSA	$69,560,000	1996 - 1997	Separate Grant	Free & Reduced Lunch
New York	Operating Standards Aid	$137,500,000	1998 - 1999	Separate Grant	Free & Reduced Lunch
New York	Pre-Kindergarten	$189,420,000	1998 - 1999	Separate Grant	Free & Reduced Lunch
New York	Summer School	$33,050,000	2000 - 2001	Separate Grant	Free & Reduced Lunch
New York	Extraordinary Needs Aid	$677,500,000	1993 - 1994	Separate Grant	Free & Reduced Lunch
North Carolina	At-Risk Services / Alternative Schools	$176,700,000	1995	Separate Grant	Census / Title 1
Ohio	Full-day Kindergarten	$96,633,793	1998	Separate Grant	TANF
Ohio	Class-size Reduction	$132,811,095	1998	Separate Grant	TANF
Ohio	Safety / Security / Remediation	$98,128,566	1998	Separate Grant	TANF
Ohio	Minimum Guarantee	$8,655,354	1998	Separate Grant	TANF
Oklahoma	Economically Disadvantaged Weight	$206,343,773	1980s	Basic State Aid	Free & Reduced Lunch
Oregon	None	$97,600,000	1993	Basic State Aid	Census / Title 1
Rhode Island	None	$61,800,000	1995	Separate Grant	Free & Reduced Lunch
South Carolina	Academic Assistance 4-12	$58,834,186	1993	Separate Grant	Free & Reduced Lunch
South Carolina	Parenting / Family Literacy	$6,140,742	1996 - 1997	Separate Grant	Free & Reduced Lunch
South Carolina	Academic Assistance K-3	$63,737,035	1993	Separate Grant	Free & Reduced Lunch
Tennessee	K-3 At-Risk Class Size Reduction	$24,122,000	1992	Basic State Aid	Free & Reduced Lunch
Texas	Pre-Kindergarten - regular	$295,024,858	1984 - 1985	Basic State Aid	Free & Reduced Lunch
Texas	Pre-Kindergarten - expension	$100,000,000	1999 - 2000	Separate Grant	Free & Reduced Lunch
Texas	Compensatory Education	$1,184,000,000	1975	Basic State Aid	Free & Reduced Lunch
Utah	Highly Impacted Schools	$5,123,207	1996 - 1997	Separate Grant	Free Lunch
Utah	At-Risk Programs	$5,374,265	1992	Separate Grant	Free & Reduced Lunch
Vermont	None	$3,821,991	1987	Basic State Aid	Food Stamps
Virginia	At-Risk Funding	$43,400,000	1992 - 1993	Separate Grant	Free Lunch
Virginia	At-Risk Four Year Olds	$18,800,000	1994 - 1995	Separate Grant	Free Lunch
Virginia	Early Reading Intervention	$12,400,000	1996 - 1997	Separate Grant	Free Lunch
Virginia	Primary Class Size Reduction	$65,700,000	1994 - 1995	Separate Grant	Free Lunch
Virginia	Standards of Learning Remediation	$15,700,000	1998 - 1999	Separate Grant	Free Lunch
Washington	Learning Assistance Program	$70,593,000	1995 - 1996	Separate Grant	Free & Reduced Lunch
Wisconsin	Preschool to Grade 5	$7,353,000	1986 - 1987	Separate Grant	N/A
Wisconsin	SAGE	$76,000,000	1996 - 1997	Separate Grant	Free & Reduced Lunch
Wyoming	Economically Disadvantaged Adjustment	$2,775,000	1999 - 2000	Separate Grant	Free & Reduced Lunch
US Total		$8,683,625,800			

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The significant expansion of poverty-based education funding programs over the last 12 years is consistent with recent trends in education finance policy. The focus of education reform efforts in recent years has been on providing "adequate" levels of funding to public schools. An important component of funding adequacy is the idea that different students have different educational needs, which in turn produce different levels of school costs. Funding systems that reflect this idea adjust distributions to schools accordingly, providing extra funding to school districts with larger numbers of high-cost students. Some poverty-based programs were created as a result of decisions by state courts that have embraced the adequacy standard in adjudicating education finance lawsuits. Others were likely created by state policymakers who were mindful of the evolving standards of the education funding policies needed to satisfy state constitutional mandates to provide public education services to all children.

How Do States Define Poverty?

To distribute poverty-based education funding effectively, states need accurate student poverty data for each school district. No states independently gather poverty information for this purpose. Rather than create additional processes for determining school poverty levels, states piggyback on poverty measures derived from various federal programs that provide benefits to low-income households. This allows states to avoid the time, expense, and administrative burden of independently calculating poverty rates for schools and school districts. By relying on poverty measures created for other programs, however, states incorporate some limitations of those measures into their education funding schemes.

The most commonly-used poverty measure for state poverty-based education funding programs is the number of children eligible for the federal free and reduced-price lunch program (Table 1A, Column 6). Administered through the U.S. Department of Agriculture, this program provides free meals at school to students whose household income is at or below 130 percent of the federal poverty line, and reduced-price meals to students whose household income is between 130 percent and 185 percent of the poverty line. The federal poverty line in 2001 was $17,650 for a family of four, meaning that 130 percent of the poverty line was $22,945 and 185 percent of the poverty line was $32,653. Twenty states base some or all of their poverty-based education funding programs on the number of students eligible for free or reduced-price meals, while 10 states use the number of students eligible for free meals only.

Six states rely on estimates of child poverty calculated by the U.S. Bureau of Census, or the close equivalent of eligibility for the U.S. Department of Education's Title 1 program. The Census Bureau estimates the number of children aged five through 17 living below the poverty line in each school district. This amount is slightly modified by the Department of Education to determine both eligibility for Title 1 funding and the amount of funding each district receives.[3]

Three states – California, Connecticut, and Ohio – use the number of children enrolled in the Temporary Assistance for Needy Families program to distribute some or all of their poverty-

[3] The number of children living below the poverty line is modified by adding the number of children living in families who have incomes above the poverty line but qualify for the TANF program, the number of children living in institutions for neglected and delinquent children that are run by local governments, and the number of children living in foster homes in which the foster parents receive payments from the state or county for support.

Current Levels of Funding for Public Elementary and Secondary Schools

The United States spent approximately $412 billion on public elementary and secondary education during the 2001 – 2002 school year, making it the largest single area of direct public expenditure, exceeding even national defense. These expenditures were for the benefit of 47.4 million public school students (another 5.2 million children attend private school), for an average per-student funding level of $8,685. This amount includes funding from all sources – state, local, and federal – and for purposes, including instruction, building, administration, and retirement. It varies significantly among the states; per-student funding in the highest-spending state, Connecticut, is over twice that in the lowest-spending state, Utah. To put elementary and secondary education expenditures in perspective, $412 billion represents just over four percent of the 2001 U.S. gross domestic product. Public elementary and secondary education accounts for approximately 24.3 percent of all state and local expenditures.

based education funds. TANF eligibility is based on monthly household earnings and eligibility varies significantly from state to state. The maximum amount of money that a single-parent family of three can earn in a month and be eligible for TANF ranges from less than $250 in Alabama to over $1,400 in Hawaii.[4] States also vary in the way they limit TANF eligibility based on the value of household assets.

One state – Vermont – uses the number of students living in households that that receive food stamps. Like the free lunch program, food stamps are administered by the U.S. Department of Agriculture and provide benefits to households with a gross monthly income of up to 130 percent of the poverty line. Unlike the free lunch program, however, food stamp eligibility is further limited by requirements related to net income, ownership of assets, and immigration status. Moreover, less than 70 percent of families with children nationwide that are eligible receive food stamps actually receive those benefits.

Each of the federal programs from which states derive the data used to distribute poverty-based education funding is associated with certain limitations. Poverty data from the free and reduced-price lunch program is collected at the school level, leaving that information subject to variations among schools in terms of the accuracy and degree of effort applied to enrolling students. In addition, studies indicate that some eligible low-income students in the upper grades fail to enroll in the free and reduced-price lunch program because of the social stigma associated with poverty.[5] For this reason, some states that use the school lunch program as their poverty measure rely on the percentage of children enrolled in the early grades to drive poverty-based funding, reasoning that this percentage is a more accurate poverty measure than the percentage of all students enrolled. For example, funding for at-risk students in Colorado is based the greater of two numbers: the total number of children eligible for the free lunch program, or the percentage of students in grades one through eight eligible for the free lunch program multiplied by total student enrollment.

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[4] The eligibility limits for California, Connecticut, and Ohio are $883, $835, and $630 respectively.
[5] *School Lunch Eligible Non-Participation, Final Report*, U.S. Department of Agriculture, Food and Nutrition Services Division, December 1994.

The Census information that drives Title 1 funding has the advantage of being calculated using a consistent methodology by an external agency with no financial stake in the outcome. Census estimates, however, are based on information from a sample of households in each school district. The accuracy of those estimates may be reduced in small districts where size produces a limited number of sample incomes. Census estimates of poverty also tend to lag current data by several years. The most current Census poverty estimate for each school district is derived from data collected in 1997 (Data from 1999 should be available at the end of 2002). To the extent that school district poverty rates change over time, lagging Census poverty data will not provide an accurate measure. Census data is also only available for school districts, not for individual schools. A number of states base their poverty-based education funding distributions in whole or in part on poverty rates at the school level, since schools in the same district can very greatly in the degree of concentration of poverty.

Use of TANF data to determine school poverty is particularly problematic. TANF benefits are limited in many states to families with income well below the poverty line, meaning that many low-income children that need additional educational services will not be reflected in TANF counts. Time limits on eligibility and enrollment rates that have declined much faster than poverty rates in recent years also increase the likelihood that TANF data will significantly understate the number of low-income students in need. TANF policies also vary at the county level in some states. Each of three states that use TANF data to determine poverty-based education funding have, to some extent, created formulas that account for some of these shortcomings.

- Funding for California's "Economic Impact Aid" program is calculated using a formula in which TANF enrollment and other factors are used to determine each school district's share of the overall EIA appropriation. Thus, funding in a given school district is reduced as a result of declining TANF enrollment only if the percent of TANF students in the district declines faster than the percent of TANF students in the state as a whole

- The number of TANF enrollees used to provide poverty-based funding through Connecticut's basic state aid program has been frozen at the 1996 – 1997 level.

- Poverty-based funding for full-day kindergarten, class-size reduction, school safety, and remediation in Ohio is based on the ratio of the percent of students receiving TANF in each school district to the percent of all students receiving TANF statewide. Similar to California, this formula ensures that funding in a given school district is reduced only if the percent of TANF students declines faster than the percent of TANF students in the state as a whole.

What Formulas Are Used to Distribute Poverty-Based Education Funding?

While most states have adopted policies that provide school districts with additional funding for the education of low-income students, no two state poverty-based education funding policies are exactly alike. The formulas used to distribute poverty-based funding can be divided into two categories: 1) modifications to basic state aid formulas and 2) separate categorical

grants. Modifications to basic state aid formulas (sometimes referred to as "foundation" formulas) involve making adjustments to the complex formulas that govern the large distributions of state funds to school districts that in most states comprise the majority of all state support for public education. Separate categorical grants are supplemental appropriations for education, distributed in addition to basic state aid distributions (A more detailed description of state education funding systems can be found in Appendix B).

Modifications to Basic State Aid Formulas

In one form or another, all basic state aid formulas provide school districts with funding on a per-student basis. Districts tabulate enrollment levels at the beginning of the school year and states multiply those enrollment levels by a per-student grant to produce a total funding level for each district. To account for the additional cost of educating certain types of students, such as students with disabilities or students in poverty, many states modify the basic formula by creating additional student "funding weights" that are used in the calculation of enrollment levels. The funding process begins with each student valued at "1" for the purposes of calculating the total number of students to be funded. Students with certain characteristics receive an add-on value or funding weight that is added the base value. For example, Oklahoma employs what it terms an "Economically Disadvantaged Weight" in its basic state aid formula. Students who are eligible for the federal free and reduced-price lunch program receive an additional funding weight of 25 percent, or "0.25," to be added to the base value of "1" for funding purposes. This provision increases student counts for the purposes of calculating state funding for districts that serve low-income children.

Twenty states provide additional education funding by including poverty-based funding weights or similar measures in their basic aid formulas, generating $4.1 billion in the 2001 – 2002 school year (Table 1A, Column 5). Because many basic state aid formulas affect both the overall level of funding for local school districts and the extent to which that funding is derived from state grants versus local property taxes, the additional resources generated by poverty-based adjustments to basic state aid formulas are effectively funded by a mix of state and local tax revenues. Because funding generated by basic state aid formulas is often distributed to school districts as an unrestricted block grant, poverty-based modifications to those grants often come with few strings attached in terms of the manner in which the funds are used. Providing poverty-based funding through a basic state aid formula is consistent with an approach to education finance in which the state provides funding levels that reflect school district costs, while school districts are given broad discretion to use those resources as they see fit.

Separate Categorical Grants

Twenty-five states provide poverty-based education funding through separate "categorical" grants to school districts, generating $4.6 billion in the 2001 – 2002 school year. Seven of those 25 states also provide funding through basic state aid formulas, utilizing both approaches. Categorical grants are funded from state revenues through separate budget line items, supplementing the state's basic aid program. Many categorical grants are provided for specific purposes, such as class-size reduction, early childhood education, and reading instruction, and to serve specific student populations, such as younger students or students

identified as being "at-risk" of educational failure. Many states that provide poverty-based education funding through separate categorical grants have adopted a more hands-on approach to education policy, dictating both the amount of money school districts receive to serve low-income students and the manner in which that funding is to be spent.

Formulas used to distribute separate categorical grants vary. Some states provide a flat dollar amount for each low-income student. Other states simply distribute a fixed amount of money based on the relative poverty level in each school district. For example, Alabama, Maryland and Rhode Island have poverty-based funding programs that are similar, distributing available funds based on each school district's portion of the statewide population of children eligible for the free and reduced-price lunch program. Other categorical grant formulas are tailored to the specific educational goals the grants are designed to achieve.

How Many States Combine Poverty Measures With Other Indicators of At-Risk Students?

Poverty is not the only student characteristic associated with a higher risk of academic failure. For example, students who have limited English proficiency or who move frequently from school to school also encounter barriers to achievement. As a result, a number of states have chosen to distribute supplemental funding for at-risk students by adopting formulas that combine poverty data with other student data.

For example, the "Highly Impacted Schools Program" in Utah provides a total of $5 million in additional funding to schools that rank highest on an index comprised of five equally-weighted factors:

- The number of students eligible for the free lunch program
- The number of ethnic minority students
- The number of limited English proficient students
- The number of students from single-parent households
- The student mobility rate (reflecting the number of students who move between different schools or school districts during the school year).

By combining multiple measurements of factors associated with a risk of academic failure, states like Utah seek to cast a broad net in capturing information that can usefully distinguish between school districts in providing funding for at-risk students.

Thirteen states combine poverty measures with other student characteristics in distributing funding to school districts that serve at-risk children (Table 1B, Column 6). The factor most commonly combined with poverty measures is the number of students with limited English proficiency, which is used in eight states. Many school districts have experienced a significant increase in LEP students in recent years, particularly in states with increasingly-high levels of immigration. Three states use measures of student mobility along with poverty rates. Student mobility rates measure the extent to which student populations turn over during the school year, as students move from one school or school district to another. Frequent changes in school environment can be disruptive to the student learning process, and high mobility is often associated with migrant, homeless, and/or low-income families.

TABLE 1B - Characteristics of State Poverty-Based Education Funding Programs

1	2	3	4	5	6
State	Program Name	Poverty Weight	Limited District Eligibility?	Variable Per-Student Grant?	Combined w/ Other Factors?
Alabama	At-Risk Funding	-	No	No	Test Scores
Arizona	Early Childhood State Block Grant	-	No	No	No
Arkansas	Poverty Index Funding	-	Yes	No	No
California	Economic Impact Aid	-	No	Yes	LEP, ethnicity, mobility
Colorado	None	11.5 % - 30%	No	Yes	LEP
Connecticut	Regular Priority School District Grants	-	Yes	Yes	Test scores, size
Connecticut	Other Priority School District Grants	-	Yes	Yes	Test scores, size
Connecticut	Early Reading	-	Yes	Yes	Test scores, size
Connecticut	School Readiness	-	Yes	Yes	Test scores, size
Connecticut	Education Cost Sharing	25%	No	No	LEP, test scores
Georgia	Reading Programs	-	No	No	Test Scores
Illinois	Supplemental Low-Income Grant	7.8% - 45.6%	No	Yes	No
Illinois	Reading Improvement Block Grant	-	No	No	No
Indiana	At-Risk Grant	-	Yes	Yes	Single parents, education levels
Indiana	Primetime	-	No	Yes	Single parents, education levels
Indiana	Tuition Support	-	No	No	LEP
Iowa	At-Risk Supplement	-	No	No	No
Kansas	Regular At-Risk Funding	-	No	No	No
Kansas	Pre-School At-Risk Funding	10%	No	No	No
Kentucky	Family Resource & Youth Service Centers	-	Yes	No	No
Kentucky	SEEK Program	-	No	No	No
Kentucky	Extended School Services	15%	No	No	Test scores, drop-out rate
Louisiana	At-Risk Factor	17%	No	No	No
Maryland	Targeted Poverty Grants II	-	Yes	No	No
Maryland	State Compensatory Education	-	No	No	No
Maryland	Targeted Poverty Grants I	-	No	No	No
Maryland	Targeted Improvement Grants	25%	No	No	No
Maryland	Teacher Development Grants	2.5%	No	No	No
Massachusetts	Class-size Reduction	34.2% - 46.4%	Yes	No	No
Massachusetts	Chapter 70	-	No	No	No
Michigan	At-Risk Pupils Program	-	Yes	No	No
Michigan	School Readiness	11.5%	Yes	No	No
Minnesota	Compensatory Revenue	1% - 60%	No	Yes	No
Minnesota	First Grade Preparedness	-	Yes	No	No
Mississippi	At-Risk	5%	No	No	No

Notes:

Poverty Weights represent the percent increase in funding provided to schools per low-income student for states that explicitly use that method.

Limited District Eligibility programs only distribute funding to districts with poverty above a certain level.

Variable Per-Student Grants program provide more funding *per low-income student* to higher-poverty school districts.

In some states poverty measures are **Combined w/ Other Factors** that are correlated to risk of academic failure, including limited English proficiency (LEP), student mobility, ethnicity, drop-out rates, test scores, etc.

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TABLE 1B - Characteristics of State Poverty-Based Education Funding Programs

1	2	3	4	5	6
State	Program Name	Poverty Weight	Limited District Eligibility?	Variable Per-Student Grant?	Combined w/ Other Factors?
Missouri	None	22%	No	No	No
Nebraska	Poverty Factor	1% - 24.75%	Yes	Yes	No
New Hampshire	Adequacy Aid	50% - 100%	Yes	Yes	No
New Jersey	Demonstrably Effective Program Aid	-	Yes	Yes	No
New Jersey	Early Childhood Program Aid	-	Yes	Yes	No
New Jersey	Instructional Supplemental Aid	-	Yes	No	No
New Mexico	At-Risk Funding	9.15%	No	No	LEP, mobility, drop-out rate
New York	ERSSA	-	No	Yes	LEP, sparsity
New York	Extraordinary Needs Aid	-	No	Yes	LEP, sparsity
New York	Operating Standards Aid	-	No	Yes	LEP, sparsity
New York	Pre-Kindergarten	-	No	Yes	LEP, sparsity
New York	Summer School	-	No	Yes	LEP, sparsity
New York	Class-size Reduction	11%	Yes	No	LEP, sparsity
North Carolina	At-Risk Services / Alternative Schools	-	No	No	No
Ohio	Class-size Reduction	-	Yes	Yes	No
Ohio	Safety / Security / Remediation	-	Yes	Yes	No
Ohio	Minimum Guarantee	-	Yes	Yes	No
Ohio	Full-day Kindergarten	-	Yes	No	No
Oklahoma	Economically Disadvantaged Weight	25%	No	No	No
Oregon	None	25%	No	No	No
Rhode Island	None	-	No	No	No
South Carolina	Academic Assistance K-3	-	No	No	No
South Carolina	Academic Assistance 4-12	-	No	No	No
South Carolina	Parenting / Family Literacy	26%	No	No	No
Tennessee	K-3 At-Risk Class Size Reduction	-	No	No	No
Texas	Pre-Kindergarten - regular	-	Yes	No	LEP, homelessness
Texas	Pre-Kindergarten - expansion	-	Yes	No	LEP, homelessness
Texas	Compensatory Education	20%	No	No	Pregnancy, resident. facilities
Utah	Highly Impacted Schools	-	Yes	No	Mobility, LEP, ethnicity, one parent
Utah	At-Risk Programs	-	No	No	Sparsity
Vermont	None	25%	Yes	Yes	No
Virginia	Primary Class Size Reduction	2% - 12%	Yes	Yes	No
Virginia	At-Risk Funding	-	No	Yes	No
Virginia	Standards of Learning Remediation	-	Yes	No	No
Virginia	At-Risk Four Year Olds	-	No	No	No
Virginia	Early Reading Intervention	-	No	No	Test Scores
Washington	Learning Assistance Program	-	Yes	No	Test Scores
Wisconsin	Preschool to Grade 5	-	Yes	No	No
Wisconsin	SAGE	-	No	No	No
Wyoming	Economically Disadvantaged Adjustment	-	Yes	No	No

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Six states integrate student standardized test score data into poverty-based funding formulas, using actual student performance data to help identify those school districts that are most in need of additional funding. Other factors states combine with poverty rates to distribute funding for at-risk students include student ethnicity, homelessness, drop-out rates, prevalence of single-parent households, average adult education levels, and measures of low population density.

It should be noted that some states that do *not* combine additional at-risk factors with poverty indicators have separate grant programs that serve those students with other types of problems. For example, while the three poverty-based funding programs in Indiana do not incorporate student test score data, two other grants provided $26 million to school districts in 2002 based on the number of students failing to meet state standards in reading and math. On a per-student basis, more of this remedial funding was distributed to high-poverty districts than to low-poverty districts.

Because some alternate measures of at-risk students may be correlated with poverty – a high-poverty district may also have lower test scores – state funding systems that provide significant resources through separate distributions for at-risk students may be of significant benefit to high-poverty districts. A state with a relatively low level of poverty-based education funding might nonetheless provide high-poverty school districts with significant resources for poor students by linking funding levels to alternate measures that are correlated to poverty (these grants based on factors other than poverty are not categorized in this report).

How Many States Target Funding to High-Poverty School Districts?

Academic research and significant anecdotal evidence regarding the effects of poverty on student performance suggest that students are negatively affected both by their individual household financial circumstances and by the overall level of student poverty within their schools. While shortfalls in nutrition, housing, and home educational environments can hinder academic performance among poor children, the presence of large numbers of other students with similar problems can produce *additional* barriers to achievement.[6] As a result, school districts tend to experience significant academic challenges once the student poverty rate passes certain threshold levels.[7]

A number of states have created poverty-based education funding formulas that reflect the additional needs of high-poverty school districts. Twenty states have at least one poverty-based funding program that limits eligibility for funding to schools or school districts that have poverty levels above a certain threshold (Table 1B, Column 4). For example, Connecticut has designated 14 of its 166 school districts as "Priority School Districts." These districts rank in the top 11 statewide in terms of the number or percentage of students in households receiving TANF

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[6] See, for example, Hanushek, Kain, Markman, Rivkin, *Does Peer Ability Affect Student Achievement?*, National Bureau of Economic Research, October 2001.

[7] Andrew Reschovsky and Jennifer Imazeki, "The Development of School Finance Formulas to Guarantee the Provision of Adequate Education to Low-Income Students," *Developments in School Finance 1997 - Does Money Matter?*, National Center for Education Statistics, 1997.

The Role of the Courts in Education Funding

A crucial component of the development of education finance policy over the last 35 years has been the role of the courts. Numerous lawsuits have been filed asserting that the distribution of public resources among school districts is inequitable, inadequate, illegal, and unconstitutional. Litigants in these cases have had substantial success, resulting in court-mandated education funding reforms that have significantly altered both the amount of money spent on public education and the manner in which that money is distributed among school districts. There have been court challenges to education funding systems in 44 states since 1970.

The U.S. Supreme Court addressed education funding in the 1973 case of *Rodriguez v. San Antonio Independent School District.* The court rejected the plaintiff's arguments on a 5-4 vote, noting that while the school funding schemes of Texas and most other states "can fairly be described as chaotic and unjust," such unfairness nonetheless failed to violate the Constitution. The *Rodriguez* case effectively put an end to federal challenges to state education funding systems, but it did not preclude reformers from seeking relief in state courts. In the 1971 California case of *Serrano v. Priest,* the court ruled that the state's funding system violated the equal protection clause of the state constitution, holding that the system "invidiously discriminated against the poor because it made the quality of a child's education a function of the wealth of his parents and neighbors." In response, the state adopted reforms designed to give school districts equal opportunity to raise funds, regardless of local variations in wealth.

Similar lawsuits were filed in a number of other states during the 1970s. The results were mixed; about half the courts followed the reasoning outlined in *Serrano* and struck down existing funding schemes, while others deferred to the principle of local control over education and the prerogative of state legislatures to determine the amount and distribution of school funding. Another line of attack emerged in the 1980s, based not on equal protection clauses but on the "education clauses" of state constitutions. Unlike the U.S. Constitution, all state constitutions explicitly require the provision of free public education for all children. Education clause challenges assert that state legislatures have a constitutional obligation to provide all schools with adequate funding to provide an education meeting certain basic standards of quality. For example, in the 1989 Kentucky case of *Rose v. Council for Better Education,* the court struck down the entire state system of education funding, finding that funding levels were inadequate to satisfy the constitutional mandate for an "efficient" system of public schools. The court went so far as to explicitly describe the characteristics of such a system, saying that it would develop the capacities of students in seven areas, including communication skills, economic and political knowledge, mental and physical wellness, knowledge of the arts, and academic and vocational training sufficient to compete with peers in surrounding states.

Court decisions have affected both the amount of money dedicated to public education and the manner in which that money is distributed among local school districts. A number of academic studies suggest that court-mandated education reforms tend to increase overall education funding levels. Policymakers charged with reducing inter-district funding disparities are unlikely to reduce funding for high-revenue districts; they are far more likely to use additional funding to give more money to low-revenue districts. Reforms based on education clauses also require additional funding, since they are based on a perceived difference between legally mandated funding levels and actual funding levels, and may require the enactment of new poverty-based funding programs or similar policies. Significant education funding cases that are currently being considered include *DeRolph v. State* in Ohio and *Campaign For Fiscal Equity v. State of New York.* The cost of meeting court mandates in these cases has been estimated at $1.2 billion in Ohio and $3 billion in New York.

benefits or needing remediation, or in the top eight in terms of total student population. Priority School Districts received more than $95 million in additional funds in 2001 – 2002 for instruction, building expenses, summer school, and extended school hours.

States also target funding to high-poverty school districts by increasing the amount of funding provided *per low-income student*. Fifteen states have at least one poverty-based funding program in which the per-student funding amount increases as the local poverty rate increases (Table 1B, Column 5). Examples include the following:

- School districts in Colorado with a below-average percentage of students eligible for the free lunch program receive an additional poverty weight of 11.5 percent for each low-income student. Those with above-average eligibility for the free lunch program receive poverty weights greater than 11.5 percent, up to a maximum of 30 percent.

- The "Compensatory Revenue" component of Minnesota's school aid program provided over $218 million to school districts based on student poverty levels in 2001 – 2002. An additional poverty weight is applied to district pupil counts for each student eligible for the free and reduced-price lunch program. A 60 percent weight is applied for every low-income student in a school building in which the number of free lunch students plus 50 percent of the number of reduced-price lunch students equals at least 80 percent of the total student population. For school buildings in which that amount is *less* than 80 percent, the student weight is reduced. The ratio of the school's poverty concentration to 80 percent is multiplied by 60 percent to derive the weight.

- The poverty factor in Nebraska's school aid formula provides poverty weights that mirror student poverty rates. School districts with students eligible for the free lunch program receive no additional funding for the first five percent of low-income students, a five percent funding weight for low-income students above five percent but below 10 percent, a 10 percent funding weight for low-income students above 10 percent but below 15 percent, etc. Funding weights match poverty rates in five percent increments up to a maximum of 30 percent.

By limiting poverty-based funding to higher-poverty school districts and varying per-student funding levels based on poverty rates, states are targeting limited resources to those school districts most in need of additional funding.

How Do States Provide Poverty-Based Funding For Specific Purposes?

Some states that choose to provide poverty-based education funding through separate categorical grants have restricted the manner in which the funds can be used. Rather than provide a general supplement tied to overall poverty levels, these states have identified specific student populations to serve and/or educational strategies to implement with the additional resources. Of the 53 poverty-based separate categorical grants provided in 2001 – 2002, thirty-seven were restricted for specific purposes, either in terms of the way the funds were to be used

or in terms of the students that were to be served. Many programs that limit services to specific student populations are designed to help younger students. Programs also target children who are in poverty, demonstrate low levels of achievement, or are otherwise at-risk of academic failure.

Seven states provide poverty-based funding for class-size reduction. A number of studies of class-size reduction efforts such as the STAR program in Tennessee and the SAGE program in Wisconsin have indicated that significant reductions in class size in the early grades have long-term academic benefits, particularly for low-income children. States have adopted a variety of formulas to fund class-size reduction efforts targeted to poor students. For example:

- Indiana's Primetime program provided $115.6 million for class size reduction in 2002. Funding is based on the amount of money necessary to achieve a target student – teacher ratio in grades K – 3. The target ratio is tied to an "at-risk index" that includes poverty data. Higher-poverty school districts are assigned a lower target student-teacher ratio, generating more Primetime funding per student. Other states that provide class-size reduction funding based on variable target student-teacher ratios linked to poverty levels include Ohio and Virginia.

- New York's $140 million class-size reduction program is limited to school districts with lower levels of local property wealth and higher numbers of students who are in poverty or have limited English proficiency. Funding is based on the number of additional teachers necessary to make up the difference between a twenty-to-one student-teacher ratio and actual class sizes in a previous "base" year.

- The Wisconsin SAGE program provides $2,000 per student eligible for the free and reduced-price lunch program to reduce student-teacher ratios to 15-to-one in grades K-3. Originally limited to high-poverty schools when the program began in 1996, eligibility was expanded to all schools (limited by available appropriations) in 1999. The state provided $76 million to SAGE in the 2001 – 2002 school year.

Ten states provide poverty-based funding for preschool and/or kindergarten programs. Recognizing that low-income students are at risk of entering the elementary grades unprepared to begin learning at the same level as their peers, these programs provide additional funds to enroll those students in early childhood education. For example:

- Arizona's Early Childhood State Block Grant provided $19.5 million to school districts in 2001 – 2002 based on the number of students in grades K-3 who are eligible for the free lunch program, generating approximately $150 per low-income student. Funding is used for preschool programs for low-income students, full-day kindergarten, or programs that support all students in grades K – 3.

- New Jersey's $330 million Early Childhood Program Aid program provides $841 per student to school districts in which more than 40 percent of students are

eligible for the free lunch program. Districts with a free lunch percentage of between 20 percent and 40 percent receive $521 per student. Funds are used to provide full-day kindergarten, preschool, and other early childhood programs.

- Texas uses both its basic state aid formula and a separate categorical grant to fund pre-kindergarten education for low-income and at-risk students. Students are eligible to enroll in public half-day preschool programs if they are homeless, limited English proficient, or eligible for the federal free and reduced-price lunch program. Districts that serve these students add "0.5" for each student to their enrollment levels for the purposes of calculating basic state aid, generating $295 million in the 2001 – 2002 school year. An additional appropriation of $100 million was provided to allow some districts to provide full-day pre-kindergarten services.

Four states provide additional poverty-based funding for reading instruction in the early grades. For example:

- Georgia combines poverty and test score data in funding reading programs. For students in grades K-3, districts receive a flat grant of $25 per student, an additional $15 per student eligible for the free and reduced-price lunch program, and an additional $30 per student not meeting academic standards in reading. Smaller amounts are provided using a similar formula for students in grades 4-8. Only districts with higher levels of poverty are eligible for the poverty component of the formula.

- Additional funding for reading instruction in Virginia is based on the cost of providing 2.5 hours of supplemental reading instruction per week to children in grade K-3 who are eligible for the free lunch program. The formula assumes a five-to-one student – teacher ratio for the additional instruction, and is based on a standard per-hour cost of hiring elementary school teachers.

Comparisons of State Commitment to Poverty-Based Education Funding

Although the large majority of states provide some form of poverty-based education funding, the level of commitment to providing schools with additional resources to educate poor students varies significantly from state to state. Some states have adopted robust programs that provide significant resources to high-poverty school districts, while others provide funding amounts that could be characterized as token distributions.

One method of comparing the level of commitment to poverty-based funding among the states is to compare the poverty weights used to determine the additional amount of money provided per low-income student. Table 2, Column 2 shows the statutory poverty weights used

TABLE 2: Total State Poverty-Based Education Funding Levels

1	2	3	4	5	6	7
	Statutory Poverty Weight	Total Poverty-Based Funding	Total Low-Income Students	Poverty Funding per Low Income Student	2001 - 2002 State/Local $ Per Student	Implicit Poverty Weight
Alabama	N/A	$29,028,405	147,497	$197	$6,357	3.1%
Alaska	None	$0	13,781	$0	$8,920	0.0%
Arizona	N/A	$19,498,200	161,128	$121	$6,172	2.0%
Arkansas	N/A	$10,000,000	90,105	$111	$5,613	2.0%
California	N/A	$465,600,000	1,155,903	$403	$7,303	5.5%
Colorado	11.5% - 30%	$129,679,000	74,554	$1,739	$6,733	25.8%
Connecticut	25%	$230,306,838	54,752	$4,206	$11,337	37.1%
Delaware	None	$0	12,642	$0	$9,081	0.0%
Florida	None	$0	414,132	$0	$6,856	0.0%
Georgia	N/A	$34,760,185	237,470	$146	$7,895	1.9%
Idaho	None	$0	30,946	$0	$6,242	0.0%
Illinois	7.8% - 45.6%	$458,000,000	276,204	$1,658	$7,445	22.3%
Indiana	N/A	$182,179,406	105,447	$1,728	$8,606	20.1%
Iowa	N/A	$9,125,000	46,525	$196	$7,466	2.6%
Kansas	10%	$56,471,947	48,497	$1,164	$7,364	15.8%
Kentucky	15%	$200,589,760	122,143	$1,642	$6,446	25.5%
Louisiana	17%	$228,120,528	185,127	$1,232	$6,267	19.7%
Maine	None	$0	25,427	$0	$8,951	0.0%
Maryland	25%	$170,918,080	84,092	$2,033	$8,657	23.5%
Massachusetts	34.3% - 42.4%	$578,607,244	111,295	$5,199	$9,903	52.5%
Michigan	11.5%	$393,954,399	219,882	$1,792	$8,823	20.3%
Minnesota	1% - 60%	$225,222,700	73,240	$3,075	$8,590	35.8%
Mississippi	5%	$30,361,993	128,010	$237	$4,878	4.9%
Missouri	22%	$346,157,945	128,199	$2,700	$7,504	36.0%
Montana	None	$0	26,008	$0	$6,702	0.0%
Nebraska	1% - 24.75%	$38,500,000	31,698	$1,215	$8,084	15.0%
Nevada	None	$0	43,917	$0	$7,040	0.0%
New Hampshire	50% - 100%	$50,000,000	14,170	$3,529	$8,292	42.6%
New Jersey	N/A	$543,381,148	145,620	$3,732	$11,684	31.9%
New Mexico	9.15%	$68,561,154	74,615	$919	$6,644	13.8%
New York	N/A	$1,247,030,000	556,600	$2,240	$11,454	19.6%
North Carolina	N/A	$176,700,000	194,081	$910	$6,220	14.6%
North Dakota	None	$0	12,968	$0	$6,894	0.0%
Ohio	N/A	$336,228,808	232,834	$1,444	$8,375	17.2%
Oklahoma	25%	$206,343,773	110,002	$1,876	$5,846	32.1%
Oregon	25%	$97,600,000	70,715	$1,380	$8,060	17.1%
Pennsylvania	None	$0	246,980	$0	$9,330	0.0%
Rhode Island	N/A	$61,800,000	24,560	$2,516	$9,915	25.4%
South Carolina	26%	$128,711,963	115,818	$1,111	$6,821	16.3%
South Dakota	None	$0	19,572	$0	$6,428	0.0%
Tennessee	N/A	$24,122,000	155,410	$155	$5,647	2.7%
Texas	20%	$1,579,024,858	797,719	$1,979	$7,159	27.7%
Utah	N/A	$10,497,472	42,485	$247	$5,325	4.6%
Vermont	25%	$3,821,991	9,883	$387	$10,327	3.7%
Virginia	2% - 12%	$156,000,000	132,826	$1,174	$7,800	15.1%
Washington	N/A	$70,593,000	123,060	$574	$7,499	7.7%
West Virginia	None	$0	64,365	$0	$8,027	0.0%
Wisconsin	N/A	$83,353,000	88,021	$947	$9,467	10.0%
Wyoming	N/A	$2,775,000	11,010	$252	$8,412	3.0%
Total		$8,683,625,797	7,291,938	$1,191	$7,906	15.1%

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by states in 2001 – 2002.[8] For states that vary the funding weight based on poverty levels, the minimum and maximum weights are shown. Among states that apply a single poverty weight to all low-income students, the weights range from five percent in Mississippi to 26 percent in South Carolina. The most commonly-used amount is 25 percent, used in five states. States that vary funding weights based on poverty levels have poverty weights as high as 60 percent in Minnesota and 100 percent in New Hampshire for the very highest-poverty school districts.[9]

Statutory poverty weights provide some indication of the relative level of commitment to poverty-based funding. There are, however, numerous factors that can affect the amount of money those weights ultimately generate for low-income children. One factor is the poverty measure being used. For example, a funding program that applies a 25 percent poverty weight to children eligible for the free and reduced-price lunch program, below 185 percent of the poverty line, will generate substantially more funding than a program that applies a 25 percent poverty weight only to children eligible for the free lunch program, below 130 percent of the poverty line.

The amount of money generated by poverty weights is also dependant on the value to which they are applied. Basic state aid formulas often include some form of a common, "foundation" funding amount for all school districts. A state with a 25 percent poverty weight and a $4,000 per-student foundation funding level will generate extra funding per low-income student of 0.25 times $4,000, or $1,000. State foundation funding levels, however, vary in terms of their size relative to overall education spending. This, in turn, can affect the relative impact of statutory poverty weights.

For example, the poverty weights utilized in New Hampshire's Adequacy Aid formula are among the largest in the nation, ranging up to 100 percent for the highest-poverty school districts. The weights are applied to a foundation or "base cost" per-student funding level of $3,311. This amount is less than half the average level of state and local per-student education funding in New Hampshire (Table 2, Column 6). The methodology used to calculate the "base cost" amount is based on spending levels in lower-spending school districts, excludes capital, special education, and other expenses, and is subject to an additional 9.75 percent reduction. Thus, the value of the poverty weights in New Hampshire is diminished because they are applied to an amount that is significantly less than average funding levels.

As noted, the real value of a statutory poverty weight is significantly affected by both the state's definition of poverty and the relative size of the foundation grant to which the weight is applied. Further, fifty-two of the 75 state poverty-based education funding programs,

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[8] Some states have multiple poverty-based funding programs, only one of which uses a statutory weight. In such cases, the statutory weight for the single program is presented in Column 2, while the amount in Column 3 represents the sum of funding for all programs, including those without a statutory weight.

[9] Where possible, statutory poverty weights have been calculated in states with formulas that do not explicitly use percentage adjustments. For example, the Massachusetts funding formula generated $2,405 in additional funding per student in grades 1 – 6 eligible for the free and reduced-price lunch program in 2001 – 2002. The base per-student funding level for all students in grades 1 – 6 was $5,180. This results in a poverty weight for grades 1 – 6 equal to $2,405 divided by $5,180, or 46.4 percent. Similar calculations for middle school and high school students result in poverty weights of 35.7 percent and 34.3 percent.

representing 42 percent of all poverty-based funding, use formulas that do not include statutory poverty weights or allow for equivalent calculations. Alternate measurements are needed to better compare the relative levels of state poverty-based education funding.

One method for such comparisons is the calculation of the total amount of poverty-based funding per low-income student.[10] Table 2, Column 3 shows the sum of all poverty-based funding programs in each state for 2001 – 2002, including both components of basic state aid and categorical programs. Column 4 shows the number of students in households with income below the poverty line, and Column 5 shows poverty-based funding per low-income student – Column 3 divided by Column 4.

Poverty-based funding per low-income student varies widely among states providing such funding, from a low of $111 in Arkansas to a high of $5,199 in Massachusetts. The variance is a function of a number of factors, including the size of the statutory poverty weight, definition of poverty, number of students served, and the per-student grant. For example, Massachusetts utilizes one of the largest statutory poverty weights nationwide. It also employs the broadest definition of poverty, eligibility for the free and reduced-price lunch program. The per-student "foundation" grant to which the poverty weight is applied ranges from $5,180 to $5,667, which is also larger than the foundation grant used in many states. Poverty-based funding is also provided for all students, unlike states that only provide funding for low-income students in the early grades. In combination, these factors contribute to a funding level per low-income student of $5,199 in Massachusetts, highest in the nation.

By contrast, Mississippi uses only a five percent poverty weight, which is applied to children eligible for free lunch, but not reduced-price lunch. Arizona also uses the more restrictive free-lunch definition of poverty, and only provides funding for children in grades K-3. Poverty-based education funding per low-income student in 2001 – 2002 was $237 in Mississippi and $121 in Arizona, in each case less than five percent of the per-student amount in Massachusetts.

Determining the amount of poverty-based education funding per low-income student allows for the calculation of an "implicit" poverty weight in each state. This is calculated in Table 2, Column 7 by dividing poverty-based funding per low-income student in Column 5 by the average statewide level of per-student state and local funding in Column 6. Since the overall funding levels in Column 6 vary significantly from state to state, this method allows for comparisons among states of the level of commitment to poverty-based funding relative to each state's education funding system. Moreover, implicit poverty weights allow for comparison of poverty-based funding levels in states with no identifiable statutory poverty weights.

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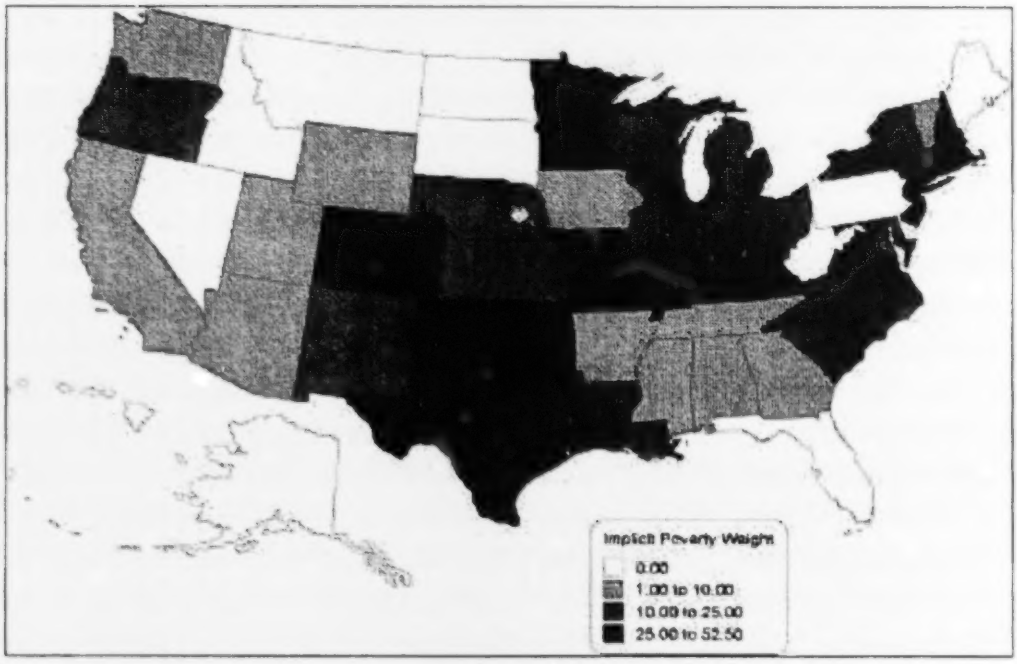
[10] For the purposes of this calculation, low-income students are defined as students living below the federal poverty line, as calculated by the Bureau of Census. While states use different definitions of poverty for funding purposes, some of which include students above the poverty line, a common definition is needed for purposes of comparison. It should also be noted that state definitions of poverty used for the purposes of calculating funding levels do not necessarily correspond to the population of students that are *served* by those funds. Many states give school districts broad discretion in determining which lower-income students are most in need of additional services and allow them to utilize poverty-based funds accordingly.

Implicit Poverty Weights



Implicit poverty weights vary from 1.9 percent in Georgia to 58.7 percent in Massachusetts, again reflecting the wide disparity among states in terms of their commitment to poverty-based funding. It is important to note that the implicit poverty weight is not a perfect measure of state commitment to poverty-based funding, since state poverty-based programs and formulas vary substantially. Implicit poverty weights are, however, a significantly better measure than statutory poverty weights, which are highly sensitive to other factors such as the definition of poverty and the foundation funding level, and are not explicitly utilized in a number of states.

States spent an average of $1,191 in poverty-based funding per low-income student in 2001 - 2002. This amount produces an implicit poverty weight for all states of 15.1 percent, including those states that provide no poverty-based education funding. For only those states that provide some level of poverty-based funding, the average implicit poverty weight is 17.2 percent.

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Policy Options for Implementing and Improving State Poverty-Based Education Funding Programs

The survey of state poverty-based education funding programs shows that states have adopted a number of different of policies to accomplish the basic goal of increasing the quality of education for low-income children. This diversity of methods offers a range of choices to state policymakers who wish to create new programs to help disadvantaged students or to improve and expand existing poverty-based programs. The following section provides four options for improving education funding for poor children, based on current education finance research and the best practices currently being used in the states.

1) Provide Funding That Reflects the Real Cost of Educating Low-Income Children

A common shortcoming of state poverty-based education funding programs is a lack of grounding in objective research regarding the actual cost of educating low-income students. For example, a number of states use a poverty weight of 25 percent, but there is little evidence to suggest that the additional funding amounts produced by that adjustment are adequate to compensate for poverty-based barriers to academic achievement. More often than not, the parameters of poverty-based funding programs have been and continue to be a function of available resources and the intuition of state policymakers.

Policymakers and analysts in some states have recently worked to close this knowledge gap by using a variety of methods to estimate objectively the real cost of educating low-income children. Their research indicates that the states are currently falling well short of the funding levels needed to fully compensate for the additional costs of education experienced in high-poverty school districts (see box on page 24). These analyses suggest that states should adopt poverty weights in the range of 100 percent to 150 percent, much higher than the actual poverty weights – statutory or implicit – currently being utilized in virtually every state.

Compared to this emerging standard of adequate education for low-income students, the commitment to poverty-based education funding among the states appears to be increasingly broad but in many cases not particularly deep. While 38 states provide some level of funding, only 23 provide more than $1,000 per low-income student. Only 11 states provide funding that produces an implicit poverty weight of more than 25 percent, despite research indicating that the actual cost of educating low-income students is at least 100 percent greater than non-poor students.

While the large number of states distributing poverty-based education funding indicates a broad consensus among state policymakers regarding the need to provide additional educational resources to low-income children, the significant number of states with relatively small implicit poverty weights and the 10 states with no poverty-based funding at all suggest that high-poverty school districts would benefit from a large expansion in the *magnitude* of poverty-based funding in the states. Federal education policies, by contrast, are more generous. Despite the fact that federal funds comprise only seven to eight percent of school revenues per year nationwide, allocations from the poverty-based federal Title 1 program increased from $8.8 billion in the

2000 – 2001 school year to $10.4 billion in 2001 – 2002, more than the sum of all state poverty-based programs combined.

States with implicit poverty weights that provide less-than-adequate funding for low-income children have a number of options to improve the quality of their poverty-based education funding programs:

- In states where funding formulas are designed to distribute a fixed amount of money among districts, the total appropriation for poverty-based funding can be increased.
- States can adopt a more expansive measure of poverty, increasing the number of students that generate additional funding.
- States can increase the statutory poverty weights that are applied to student counts and per-student funding levels, bringing them closer to the actual cost of educating poor children.
- States can redefine the "foundation" per-student funding levels to which poverty weights are applied to reflect accurately the average per-student spending level in the state.

Each of these options, implemented individually or in combination, can increase the level of education funding for school districts that serve low-income students.

2) Target Funding to High-Poverty School Districts

In a fiscal environment of limited resources and multiple competing priorities, the full amount of funds needed to improve education for every low-income children may not be immediately available. As such, poverty-based education funding programs can be most effective if they target limited resources to those school districts most in need. Two strategies that accomplish this goal are currently used by a number of states – limiting eligibility for funding to school districts with poverty rates above a certain threshold level, and increasing the level of funding per low-income student for higher-poverty schools.

Twenty states have at least one program in which funding is limited to higher-poverty districts (Table 1B, Column 4). These policies reflect the widely-held belief, supported by research, that low-income children educated in high-poverty school districts experience more barriers to achievement than similar low-income children in low-poverty districts. The experience of being educated in a low-poverty environment is beneficial to poor students, reducing the need to give low-poverty school districts additional funding to serve their few low-income students. For example, by excluding the 20 percent of school districts with the lowest poverty rates from poverty-based funding, states can better concentrate funding on higher-poverty, higher-need areas.

Calculating the Cost of Educating Low-Income Students

Analysts and policymakers in three states have recently used a variety of approaches to objectively determine the amount of money needed to educate low-income children. For example, a blue-ribbon commission of experts in Maryland was recently charged with formulating recommendations for reforming the state's system of education finance. The commission began by documenting spending levels in schools that were meeting performance standards for standardized test scores, attendance rates, and graduation rates. The commission then used multiple panels of experienced educators to determine "a series of adjustments…to reflect the cost pressures associated with different pupils, different programs, or different characteristics of school districts. The resources identified by the panels are then 'priced out' based on salary levels and other factors to determine per pupil costs."(1) The panels indicated that the cost of educating low-income students produced the need for a supplemental poverty weight of 139 percent, or *more than twice* the base per-student cost of education. This formula formed the basis for legislation that was passed by the Maryland legislature and enacted into in law in May 2002. The final reform package included a 97 percent funding weight for low-income children. The legislation calls for $1.3 billion in new education funding when fully implemented.

Researchers at the University of Wisconsin-Madison performed statistical analysis of funding levels, demographics, and educational performance data from Wisconsin's 368 school districts to estimate the cost of education for each school district, based on the different kinds of students enrolled.(2) Those estimates resulted in a poverty weight of 159 percent. The authors noted:

> "A poverty weight of 159 percent indicates that to achieve any given level of educational outcomes costs two and a half times as much money [for a poor student] as required to educate a regular student. The fact that our poverty weight is considerably larger than the largest weight used by those states that include such weights in their equalization aid formulas, suggests that these other states underestimate the true costs of educating poor children."

A similar analysis conducted by a researcher at Syracuse University examined education data from the 1999 - 2000 school year in the state of New York.(3) The study calculated the extra cost to school districts of bringing low-income students up to the average level of statewide academic performance, as measured by a composite measurement of math and reading test scores in the 4th grade, 8th grade and state regents examinations. The extra cost was estimated to be almost twice that of educating non-poor students, producing a funding weight of 97 percent. The author noted that,

> "...these results would suggest that most states are significantly underestimating the additional resources that are required to support at-risk students achieving higher standards."

The fact that the funding weights developed for low-income students in these various studies range in size significantly is indicative of the evolving nature of this research. But it is striking to note that of the data and analysis generated in three different states, each of which has different funding levels, student characteristics, and performance standards, and which were conducted using different analytical approaches, *all* produced estimates of the additional cost of educating low-income students that greatly exceed those reflected in the actual funding policies adopted by *any* state prior to 2002.

(1) Maryland Commission on Education Finance, Equity, and Excellence, *Final Report*, 2002.
(2) Andrew Reschovsky and Jennifer Imazeki, "The Development of School Finance Formulas to Guarantee the Provision of Adequate Education to Low-Income Students," *Developments in School Finance 1997*, National Center for Education Statistics, 1997.
(3) William Duncombe, *Estimating the Cost of an Adequate Education In New York*, Center For Policy Research Working Paper, Syracuse University, 2002.

Similarly, fifteen states have at least one program in which the *per-student* level of funding increases as school or school district poverty rates increase (Table 1B, Column 5). As with programs that limit eligibility to higher-poverty districts, funding programs with variable per-student grants seek to concentrate resources in the higher-poverty school districts that often experience chronic and severe shortcomings in academic performance. Some states use variable funding weights to accomplish this policy goal. A state could, for example, provide school districts with a supplemental grant for each low-income student equal to 100 percent of the "foundation" grant. For districts whose poverty rate exceeds the statewide average, an additional percentage could be added that reflects the extent to which poverty in the district exceeds the average poverty rate. With a foundation of $6,000 and an average poverty rate of 15 percent, for example, an individual district with a 15 percent poverty rate would receive an additional $6,000 per low-income student. A district with a 20 percent poverty rate would receive an additional grant of $8,000 per low-income student, calculated by multiplying the $6,000 foundation grant by 1.333 (the 20 percent district poverty rate divided by the 15 percent average poverty rate).

By limiting eligibility for funding to school districts with significant numbers of low-income children and providing additional resources per student to higher-poverty school districts, states can maximize the effectiveness of poverty-based education funding by targeting dollars to the school districts that are most in need of additional resources to overcome the barriers to achievement associated with poverty.

3) Increase the Accuracy of Poverty-Based Distributions By Using Multiple Data Sources

As noted above, no state independently gathers student poverty data to use in providing poverty-based education funding. Instead, states piggyback on the number of students eligible for one or more federal programs that provide resources to schools or households based on poverty rates. It is reasonable that states choose not to expend the considerable time, effort, and money necessary to independently gather poverty data that would not necessarily be more accurate than available federal data. Such expenditures might reduce the amount of money available for educational services and impose additional administrative burdens on school administrators and low-income families.

By using federal poverty measures, however, state distributions are subject to whatever limitations exist in the federal data. One solution that states can pursue to increase the accuracy of poverty-based education funding programs is to use multiple data sources to determine the population of students in need. For example, some states currently distribute funding based on each district's share of the statewide population of children eligible for the free and reduced-price lunch program. These states could distribute 50 percent of poverty-based funds to school districts based on the share of all free and reduced-price eligible students, and 50 percent based on each district's share of students living below the poverty line, as measured by the Census Bureau. Combining different poverty measures would reduce the potential negative effects of the limitations inherent to any single poverty measure. This approach would also have the effect of concentrating resources in school districts with more students who are very poor, because the

census poverty definition (100 percent of the poverty line) is more restrictive than the free and reduced-price lunch definition (185 percent of the poverty line).[11]

4) Address Other Education Funding Policies that Reduce the Effectiveness of Poverty-Based Education Funding Programs.

State poverty-based funding programs exist as part of larger, more complex education funding schemes. Well-designed funding programs to assist poor students can only be successful if they are not compromised by other aspects of a state's school funding system. If other education funding policies are specifically detrimental to low-income students, the value of poverty-based programs will be diminished. Examples of specific provisions that compromise the effective of poverty-based education funding programs include the following:

Flawed Basic State Aid Formulas

Poverty-based education funding programs are inherently supplemental; they provide additional money to account for additional costs above the basic costs of education that are common to all students. Funding for those basic costs is provided by large basic state aid programs. If the basic state programs are designed in a way that is detrimental to high-poverty school districts, such flawed funding policies can reduce or even negate the positive effects of poverty-based distributions.

Consider, for example, education funding distributions in Illinois. Compared to other states, Illinois has a poverty-based education funding program that is fairly robust. A total of $458 million was provided through two programs in 2001 – 2002, producing an implicit poverty weight of 22.3 percent, 12th highest among the states (Table 2, Column 7). By this measure, education funding policies in Illinois are better than in most states with respect to poor children.

The Illinois basic state aid formula, however, is decidedly disadvantageous to low-income children. Education funding in Illinois is disproportionately reliant on local property taxes, producing wide disparities in funding levels between low-wealth and high-wealth school districts. One recent report ranking funding "equity" in the states, a measure of the disparity in funding levels between different districts, ranked Illinois as having one of the four least equitable funding systems in the nation.[12]

Because many low-income students live in low-wealth school districts, basic state aid formulas that penalize low-wealth school districts often produce funding outcomes in which high-poverty, low-wealth school districts receive *fewer* resources than low-poverty, high-wealth districts, despite the fact high-poverty districts need *more* resources to produce similar levels of achievement. In such a funding environment, the positive effects of poverty-based funding programs can be overwhelmed by the effects of basic inequities in state aid.

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[11] Using this approach to incorporate Census poverty data would not reduce the total amount of poverty-based funding in the state, because it is based on the percentage of all children living below the poverty line, not the number of children living below the poverty line.

[12] "Quality Counts 2001: A Better Balance," *Education Week*, 2001.

Inequitable basic state aid distributions can likewise have a *specific* negative effect on the distribution of funds based on poverty. If a state provides poverty-based funding by adding poverty weights to each school district's basic state aid allocation, and those allocations are biased against low-wealth school districts, the poverty-based funding will be similarly biased. If a low-wealth district receives $4,000 per student and a high-wealth district receives $6,000 per student, a 25 percent poverty weight will provide an extra $1,000 per low-income student in the low-wealth district and $1,500 per low-income student in the high-wealth district. This is a perverse outcome; the district with greater need is receiving fewer additional dollars on a per-student basis.

"Hold-Harmless" Provisions

Some funding formulas include "hold-harmless provisions" specifying that districts cannot receive less money than they received in previous years, even if the funding formula determines such an outcome. For example, a state might provide districts with $1,000 per low-income student. A district with 300 low-income students would receive $300,000. If the state increased the per-student grant by five percent to $1,050 in the next year, but the number of low-income students in the district declined by 10 percent to 270, the formula would generate $1,050 times 270, or $283,500, a reduction in funding from the previous year of $16,500. A hold-harmless provision, however, would guarantee that the district would continue to receive $300,000.

Assuming that the total amount of money available for poverty-based education funding is limited, hold-harmless provisions reduce the amount of money available for districts with *increasing* numbers of low-income students. The extra $16,500 given to the district with fewer poor children could be used instead to increase the per-student grant amount, helping districts with growing levels of poverty. Some states effectively pay for the cost of maintaining hold-harmless provisions for districts with declining numbers of poor students by imposing "caps" on the amount that funding can *increase* from year-to-year, reducing funding levels for districts with growing poverty levels to an amount *below* that generated by the funding formula. When maintained over a number of years, hold-harmless provisions can seriously distort funding outcomes and diminish the effectiveness of poverty-based funding programs in targeting resources to school districts and children most in need. If political considerations or a desire to allow districts to adjust to lower funding levels make hold-harmless provisions unavoidable, they should be phased out over time.

Pre-determined Outcomes

Political considerations play a natural role in any process of developing public policy, including education funding policy. Ideally, however, education funding formulas are designed on the premise of a basic need for fairness and impartiality, to ensure that similar school districts are treated similarly, regardless of differing levels of influence and favor in the political process. In most cases, education funding outcomes are the product of standard, verifiable measures of future school inputs – student enrollment, price levels, poverty rates, etc. As these factors vary, so too do funding levels, regardless of political circumstances. Where this is *not* the case – if the results of the formula are essentially determined *prior* to the development of funding formulas

and the measurement of school inputs – then the public policies embedded in education funding formulas are negated and the idea of funding being "based" on poverty or any other factor is lost.

An example of this problem was recently noted in the ongoing education funding lawsuit in the state of New York, *Campaign for Fiscal Equity v. New York*. New York has extensively integrated poverty measures into its very complex education funding scheme. Six separate funding programs contain factors that benefit low-income students. Since the majority of all low-income children in New York reside in a single school district, the New York City public school system, these poverty-based funding programs would be expected to increase funding levels for that district. In fact, the existence of these formulas was cited by the state in the case as evidence that the funding policies in New York are responsive to the needs of school districts that serve low-income students.

Evidence at the trial, however, indicated that the effectiveness of the poverty-based funding formulas has been fatally compromised by political considerations. The State Comptroller testified:

> "It is well known that the formulas are actually 'worked backwards' until the politically negotiated 'share' for the City schools is hit in the calculations. In this context, the data feeding into the school aid formulas for New York City is really of no practical consequence whatsoever the City will get the negotiated share of aid regardless of what data they report."

In its decision, the court also noted the unusual nature of the form used by policymakers to submit education funding proposals for modeling by computer programs:

> "The…form includes a section entitled 'goals' that list several factors, including '% increase for NYC.' No other school district is listed on the form. The existence of this 'goal' is evidence that confirms the Comptroller's assessment that the City's annual increase in State aid is determined during budget negotiations and not by neutral operation of the State's funding formulas. State budget documents reflect that New York City receives a fixed percentage share of any annual increase in State aid for education. The target has been 38.86%, and the state has hit or come very close to this percentage over the last 13 years…It is inconceivable that this recurring percentage share could randomly recur year after year."

Evidence presented in the court case suggests that state poverty-based education funding in New York could be plausibly characterized as a sham, in that the extensive use of poverty measures in school funding formulas appears to have had no effect on the amount of resources actually distributed to the school district educating the majority of the state's low-income children. Political compromises and manipulations of this nature have the effect of negating the positive effects of formulas designed to improve the quality of education for low-income students.

Each of these examples shows that effectively formulating education funding policies to benefit low-income children involves looking beyond the creation of specific formulas with a

poverty component. Policymakers should be aware of other aspects of state education funding schemes that may diminish the impact of poverty-based education funding programs on improving academic outcomes among low-income children.

Conclusion

School districts that serve low-income children face numerous challenges in the coming years. The large number of states that provide additional resources to meet those challenges indicates that state policymakers understand the importance of targeting education funds to help poor students. Many states, however, have not yet created programs that fully meet the needs of high-poverty schools districts. By creating new programs where poverty-based funding is lacking and making existing programs more robust, focused, accurate, and effective, states can ensure that schools have the resources they need to help low-income students meet the highest standards of academic achievement.

The author wishes to acknowledge the research assistance of Tracy Black in preparing this report.

Appendix A
Data Sources and Research Methodology

Information contained in this report was gathered from a variety of sources. Telephone interviews of state education finance officials were conducted for every state except Hawaii and the District of Columbia. Officials contacted included those at state departments of education, governor's budget offices, and legislative fiscal offices. In many cases supporting documentation was provided via letter, email, and FAX. Many state offices also make public education finance information available on the Internet. More detailed information regarding individual state poverty-based education funding programs is available from the Center on Budget and Policy Priorities on request.

Information regarding state poverty-based education funding programs was limited to programs designed to provide additional resources to school districts based on levels of student poverty. Such programs are distinguished from the funding mechanisms currently used in most states to equalize school funding levels based on differences in local property wealth. In many cases, there is a correlation between high levels of student poverty and low levels of local wealth (although this often is not the case in large urban areas). For this reason, school districts with high poverty levels often receive more wealth-equalization funding on a per-student basis than school districts with low poverty levels. While wealth equalization is an important component of state education funding, these funds have not been included in this survey because they are designed to create *equity* in funding levels and local tax rates, not to provide *additional* funding to serve low-income students.

All program descriptions and amounts are for the formulas used to distribute funds in the 2001 – 2002 school year, with the exception of New York. Education funding allocations to school districts for 2001 - 2002 in New York were created by an unusual process, in which allocations on a computer printout were incorporated by reference into the budget law. For this reason, many formulas that normally drive education funding were technically inactive for that year. As such, the funding amounts and the formula calculations associated with education funding in New York in this paper are for the 2000 - 2001 school year.

Funding amounts shown for separate categorical grants that include at-risk factors other than poverty represent the total amount of the grant. The amounts have not been adjusted to isolate the cost of the poverty-based component of the grant, because information to do so is unavailable in many states.

Enrollment and total state and local funding data shown on Table 2 are derived from *Early Estimates of Public Elementary and Secondary Education Statistics: School Year 2001 – 2002*, National Center for Education Statistics, April 2002. Total state and local funding is estimated by applying the percentage of federal, state, and local revenues originating from state and local sources in 1999-2000 (the latest year for which the percent of revenues from federal sources is available, see *Statistics in Brief: Revenues and Expenditures for Public Elementary and Secondary Education: School Year 1999-2000*, National Center for Education Statistics, April 2002) to the estimate of total federal, state, and local revenues in 2001 – 2002. The number of low-income students is estimated by multiplying total Fall 2001 enrollment by the

U.S. Bureau of Census estimate of the percentage of children in each state aged five to 17 (inclusive) living below the poverty line in 2000 (the latest year for which state-level poverty estimates are available).

It should be noted that some states, such as Maryland, New Hampshire, Wisconsin, and Wyoming, are planning to make significant changes or expansions to poverty-based education funding programs for the 2002 – 2003 school year.

Appendix B
State Education Funding Systems

While no two state education funding systems are exactly alike, most states use similar basic funding structures to finance public schools. To divide funding among school districts, states identify factors that distinguish districts from one another, calculate the impact of those differences on the cost of providing educational services, and distribute funding accordingly. Beyond the obvious difference of size, the most significant factor that distinguishes school districts from one another is school district wealth. Some districts are relatively wealthy, others are not. States have developed a number of basic funding systems that undergird the calculation of school district funding levels and adjust, to varying degrees, for local differences in wealth. While every state system is different, the fundamental structures of state school funding systems have many similarities. State formulas for dividing funding among school districts fall into one of four categories:[1]

Flat Grant: Under this simple approach, every district gets an identical "flat" grant for each student enrolled, regardless of local circumstances. This funding scheme reflects a belief that the state should ensure a minimum funding level for all students and then give local districts autonomy to raise funding beyond that point as they see fit. Once common among the states, this approach has largely been abandoned for the more sophisticated formulas described below. Vestiges of the flat grant approach continue to be used on a partial basis in some states.

Power Equalization: This approach grew out of the work of education reformers in the 1960s and 1970s who observed that large differences among districts in the ability to raise local funds resulted in school funding disparities. A certain standard increment of property taxation – a "mill," for example, which represents one hundredth of one percent of the value of property – raised far more money per student in wealthy districts than in poor districts. Districts adopting identical property tax rates received very different amounts of revenue.

The solution was to guarantee every district a standard amount of money per student for each unit of taxation. For example, the state might decide that every school district should be able to raise $100 per student, per mill of property tax rate. If a school district's tax base was such that one mill only raised $40 per student, the state would provide a grant equal to difference between $100 and $40, or $60 per student, per mill. A wealthier district whose tax base raises $70 per student, per mill, would only receive $30 per student, per mill, from the state. In this way, the state "levels the playing field" for school districts in terms of the ability to raise revenue, ensuring that funding disparities are a result of differences in taxpayer preferences, not taxpayer wealth. The power equalization approach reflects the idea that states have a responsibility to ensure that school districts have equality of opportunity in school funding, but not equality of outcome.

Foundation Plans: The Foundation Plan approach is currently used in various forms by 40 states. It incorporates elements of the previous two approaches. Foundation plans establish a both a specified (foundation) per-student funding amount and a specified local tax rate that each school district must levy. The state provides the difference between the amount of revenues raised from the local tax rate and the foundation funding level.

For example, a state might establish a foundation funding level of $6,000 per student. For a district with 1,000 students, this would produce a total funding amount of $6 million. If the state-determined minimum local tax rate of 200 mills raised $2 million in local property taxes, the state would provide a grant equal to the difference between $2 million and $6 million, or $4 million. If applying the 200 mill minimum tax rate in a wealthier district with the same number of students raised $5 million, the state would provide only $1 million in state funds. Both districts end up with the same local tax rate and the same combined state and local funding level per student, although the relative weight of those two sources is significantly different. Some states give school districts the discretion to raise their local tax rates above the minimum level, but with no further matching funds from the state. Other states cap local property tax rates at the minimum level, in the interests of limiting local property tax burdens and ensuring relative equality in education funding levels.

The foundation grant incorporates the aspects of power equalization schemes designed to mitigate disparities in local wealth, but takes the idea of equality a step further – both opportunity *and* outcome are now determined, to varying degrees, by the state. Foundation plans are based on the idea that local school districts should not enjoy unlimited discretion in setting funding levels that are unacceptably different from statewide norms – either in being too low, or – in some cases – in being too high.

Full State Funding: The simplest and rarest approach to paying for public education is where the state pays for everything. Hawaii combines full state funding with a single, unified school district, effectively eliminating any distinctions between "state" and "local" governance in determining education funding policy. Localities have not control over funding levels.

The four categories described above represent only the basic structures of state education funding plans. Most states employ schemes that combine elements of some or all of these funding plans. For example, a state might distribute some money through a flat grant, and the remainder through a foundation plan. Alternatively, a state could give districts the discretion to raise tax rates and funding up to a point above the minimum levels established under a foundation plan, but use a power equalization formula to ensure that districts with different levels of local property wealth have the same capacity to raise additional funding.

The focus of many education finance reformers in considering different funding structures is often on the effect of those policies on producing equity among students in levels of funding. Other policymakers view education finance reform as a way to provide equity among taxpayers in levels of property tax burden. The challenge of balancing fairness for students and fairness for taxpayers is often a significant contributor to the complexity of education funding schemes.

The basic education funding structures discussed above revolve around inter-district differences in local wealth and tax capacity. Those policies have the largest impact on the total funding amounts received by school districts. There are, however, many other factors that distinguish school districts from one another and have an impact on the cost of providing

education. States have adopted policies designed to accommodate those differences by adjusting funding levels beyond the basic allocations accordingly. Those policies include the following:

Size and Student Dispersion: Some states have large areas of widely dispersed, rural populations. School districts in these areas often have higher transportation costs than compact, highly populated districts. In addition, rural school districts may operate a number of small, individual school buildings that cost more to operate and maintain on a per-student basis. Some states adjust funding levels for these districts based on the idea that the districts have certain unavoidable increased costs due to diseconomies of scale.

Cost of Living: The price of purchasing goods and services is not uniform among school districts across the nation or within a state. Some districts located in urban areas, for example, may face higher labor costs driven by the price of housing, transportation, food, etc. Some states adjust funding levels accordingly, providing additional funding to high-cost districts. The U.S. Department of Education has developed estimates of differences in cost for every school district in the nation.[ii]

Changing Enrollment: All school funding formulas are based, to varying degrees, on the number of students enrolled in each district. This is fundamentally logical and would at first glance appear to be the basis for a fairly straightforward funding mechanism: (per-student grant) times (number of students) equals (grant). It is complicated, however, by the fact that school district enrollment levels change from year to year. Changes in enrollment don't necessarily produce appreciable marginal cost changes to the school district equal. A gain or loss of one student, for example, is unlikely to noticeably affect school costs. Under the standard formula shown above, however, it would results in an increase or a decrease in school funding.

School districts with growing enrollment support the simple "per-student grant times number of students" formula because it benefits them financially. School districts with declining enrollment object, because it hurts them financially. Many states have responded by adopting policies that treat negative and positive enrollment changes differently. Shrinking districts are sometimes "held harmless" from the fiscal impact of enrollment losses, while growing districts receive full funding or some amount close to it for each new student they enroll. Such policies, which effectively provide funding twice for students who move between districts, once for the district that lost enrollment and once for the district that gained, are ultimately least beneficial for school districts whose enrollment is relatively stable. In the end those districts receive a smaller portion of what is presumably a finite pool of education funding.

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[i]These categories are widely used in education finance studies. A useful summary of their characteristics can be found in *Financing the New Adequacy: Towards New Models of State Education Finance Systems That Support Standards-Based Reform*, Deborah Verstegen, Journal of Education Finance, Winter 2002.

[ii]Jay Chambers, *Geographic Variations in Public Schools' Costs*, Nation Center for Education Statistics, February 1998.

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